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December 9, 1997

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DEC - 9 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

BY HAND DELIVERY

Magalie Salas, Secretary Federal Communications Commission 1919 M Street, Room 222 Washington, D.C. 20554

> Re: In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128

Dear Ms. Salas:

Please find enclosed for filing an original and fourteen copies of the Motion for Leave to File Out of Time of the RBOC/GTE/SNET Coalition in the above captioned proceeding.

Please date-stamp and return the extra copy provided to the person delivering this package.

Sincerely,

Michael K. Kellogg

Enclosures

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, DC 20554

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DEC - 9 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

| Implementation of the Pay Telephone Reclassification and Compensation |) | CC Docket 96-128 |
|---|---|------------------|
| Provisions of the Telecommunications |) | |
| Act of 1996 |) | |

MOTION FOR LEAVE TO FILE OUT OF TIME

The RBOC/GTE/SNET Payphone Coalition (the "Coalition") respectfully moves for leave to file out of time the attached Opposition to PCIA's Request for Stay.

The Coalition attempted to file this Opposition on December 8, the deadline for filing under 47 C.F.R. § 1.46(d) (requiring that oppositions to a request for stay must be filed within 7 days of the filing of the request). Due to production difficulties, the filing arrived at the FCC Building at 5:30 p.m. The individual delivering the filing was able to enter the building, but by the time he reached the second-floor office of the Secretary, the door was closed.

The Coalition is filing this Motion along with the Opposition to PCIA's Request for Stay at the start of business on December 9. In addition, the Coalition will serve all parties to the proceeding by hand or by facsimile to ensure that no party is prejudiced by the granting of this Motion.

Respectfully submitted,

Michael K. Kellogg

Kevin J. Cameron

Aaron M. Panner

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December 9, 1997

Before the FEDERAL COMMUNICATIONS COMMISSION Washington, DC 20554

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| Reclassification and Compensation |) | CC Docket 96-128 |
| Provisions of the Telecommunications |) | |
| Act of 1996 |) | |

OPPOSITION OF THE RBOC/GTE/SNET COALITION TO PCIA'S REQUEST FOR STAY

The RBOC/GTE/SNET Payphone Coalition (the "Coalition") respectfully opposes the request of the Personal Communication Industry Association ("PCIA") for a stay pending judicial review of the Commission's Second Report and Order in this proceeding.

PCIA has provided no justification for a stay of per-call compensation requirements.

PCIA does not even argue that the per-call compensation rate is excessive; it betrays a fundamental misunderstanding of the avoided cost methodology the Commission applied; and its statements regarding the difficulty and expense of call blocking not only are unsupported by citations to the record, they are contradicted by the statements and actions of the paging companies for whom PCIA purports to speak. The Commission's orders simply ensure that "payphone service providers are fairly compensated for each and every completed . . . call using their payphone." 47 U.S.C. § 276(b)(1)(A). PCIA's complaint is with the Telecommunications Act of 1996, not with the Commission.

Nor can PCIA point to any plausible threat of irreparable harm that a stay could prevent.

As an initial matter, PCIA makes no claim of harm of any kind with respect to per-call

compensation paid on access code calls. Moreover, a stay will not help PCIA's members, because the IXCs will inevitably continue to pass per-call charges through to their customers whether or not a stay is issued. And PCIA's claims of threatened injury are in all events unsubstantiated and wholly "theoretical." See Wisconsin Gas Co. v. FERC, 758 F.2d 669, 674 (D.C. Cir. 1985).

By contrast, a stay of the Second Report and Order would threaten the very viability of many PSPs, who, after the elimination of state and federal subsidies, are counting on per-call charges to survive. A stay would pose a threat not only to PSPs, but to the public interest in the "widespread deployment of payphone services." 47 U.S.C. § 276(b)(1).

I. PCIA'S APPEAL WILL FAIL ON THE MERITS

The Commission must consider four factors to determine whether PCIA has justified a stay:

1) the likelihood that the party seeking the stay will prevail on the merits of the appeal; 2) the likelihood that the moving party will be irreparably harmed absent a stay; 3) the prospect that others will be harmed if the court grants the stay; and 4) the public interest in granting the stay.

<u>Wisconsin Gas Co.</u>, 758 F.2d at 673-74. The Commission need go no farther than the first of these to deny PCIA's request; it has mounted a singularly ineffectual attack on the Commission's Second Report and Order.

PCIA's argument focuses exclusively on the availability and cost of call blocking. But this argument is peripheral to the central point and purpose of this proceeding. Congress has required the Commission to "establish a per call compensation plan to ensure that all payphone service providers are fairly compensated for each and every completed . . . call using their

payphone." 47 U.S.C. § 276(b)(1)(A). Congress made no exception for toll free calls to paging companies, whether the paging companies can block such calls or not.

In carrying out the congressional mandate, the Commission properly started with the premise that any price set by the market is, by definition, "fair compensation." Notice of Proposed Rulemaking, 11 FCC Rcd 6716, 6725 ¶ 16 (1996). The Commission initially determined that the competitively determined local coin rate was an appropriate market surrogate for subscriber 800 and access code per-call compensation because the costs of "various types of payphone calls are similar." Report and Order, 11 FCC Rcd 20541, 20577 ¶ 70 (1996). On appeal, the D.C. Circuit took no issue with the Commission's effort to set a market-based rate, nor with its determination that the local coin rate was determined in competitive markets. Rather, the D.C. Circuit vacated the per-call rate because the Commission had failed to account for evidence that the costs of coinless calls differ from the costs of coin calls. Illinois Pub.

Telecomm. Ass'n v. FCC, 117 F.3d 555, 564 (D.C. Cir. 1997).

The court upheld the Commission's determination that IXCs' potential to block calls gave them leverage in negotiations with PSPs. But this fact did not save the per-call rate:

[A]t a minimum, the IXCs are entitled to a default rate that is reasonably justified, so they are not forced to resort to call blocking only because the default rate has been set at an unreasonable level.

<u>Id.</u>

On remand, the Commission addressed the Commission's criticism directly by applying an avoided cost methodology to derive a per-call rate that would reflect competitive market outcomes while accounting for differences in costs. By adjusting for costs avoided, and incurred, when a payphone is used for dial-around and subscriber 800 calls, this approach ensures that the

payphone provider is indifferent to whether the consumer makes a subscriber 800 call, a dialaround long distance call, or a coin call: in each case there is the same "profit," and the same contribution to joint and common costs. The Commission's methodology was thus calculated to ensure that the default rate provides fair compensation to PSPs, no more, and no less.

PCIA argues that because IXCs are allegedly unable to block certain payphone toll-free calls, the "basic rationale for [the Commission's] market-based compensation standard" is "gutt[ed]." Request for Stay of PCIA at 4 (filed Dec. 1, 1997) ("Request for Stay"). This is ridiculous. To be sure, the Commission set the per-call rate as a default rate; IXCs and PSPs alike may bargain around that rate. Likewise, the Commission did say that "over time" the ability to block payphone calls would give IXCs significant leverage in negotiations over per-call charges. See Second Report and Order ¶ 97 (rel. Oct. 9, 1997) (emphasis added). But the entire purpose of the proceedings on remand was to set a default rate that was fairly compensatory. The Commission's conclusions on this point would in no way be undermined even if it were to turn out that call blocking is more difficult to implement than the Commission originally thought.

Moreover, a delay in universal implementation of the payphone specific digits is unlikely to reduce IXCs bargaining leverage in any significant way. Already, at least 60% of payphones

¹The Coalition believes that the Commission would have mirrored market results more closely if it had taken demand conditions into account; such a demand-sensitive analysis would indicate that the per-call default rate should be greater than the local coin rate. And while the avoided cost methodology is clearly superior to the cost-based methodologies suggested by IXCs, the Commission's application of that methodology was flawed in some respects, and these flaws again led the Commission to set the rate too low. See generally Coalition's Petition for Reconsideration (filed Dec. 1, 1997).

transmit the payphone specific digits. See Order, DA 97-2162 ¶ 12 (Com. Car. Bur. Oct. 7, 1997). And the Coalition has submitted evidence that other methods of call blocking are currently feasible even without Flex ANI. See LEC ANI Coalition Ex Parte, at 7 (filed June 16, 1997). Thus IXCs are undoubtedly at an advantage over PSPs, who are prohibited by TOCSIA from blocking specific IXCs. See Memorandum Opinion and Order, DA 97-2565 ¶ 10 (Com. Car. Bur. Dec. 5, 1997) ("While MCI argues that it is unable to block certain calls for which its customer must pay compensation . . ., LECs and PSPs are unable to block the use of their payphones by MCI's customers PSPs would not receive compensation without the [Commission's] requirements ").

PCIA never even argues that the Commission failed to set a fair rate for per-call compensation. It is therefore incomprehensible that paging companies complain that they are required to pay fair compensation for calls made from payphones when those calls are of primary benefit to those companies. The paging companies, like the IXCs, have been taking a free ride on PSPs' investment for years. It is not the Commission's actions that put a stop to this; it was the Telecommunications Act of 1996.

And PCIA's claim that the Commission failed to consider the "enormous costs" of call blocking looks particularly hollow in light of the announcements of its member paging companies that they have already begun to block calls from payphones. See Mike Mills, That New Number: 1-800-BLOCKED; Pager Firms Prevent Use of Pay Phones for No-Longer-Toll-Free Calls, Wash. Post, Dec. 3, 1997, at B11; Seth Schiesel, Coming to Pay Phones Soon:

Blocking of Some '800' Calls, N.Y. Times, Dec. 7, 1997, at A1 ("[T]wo paging companies with

more than three million customers between them have decided to block <u>all calls</u> from public phones rather than pay the fee.") (emphasis added) (articles attached hereto as Exhibit A).

II. PCIA MAKES NO PLAUSIBLE CLAIM OF IRREPARABLE HARM THAT A STAY COULD REMEDY

PCIA makes no claim of injury of any kind with respect to access code calls; nor does PCIA makes any claim of harm with respect to those payphones for which call blocking is concededly possible. Rather, PCIA argues that for those minority of payphones for which call blocking is allegedly unavailable, "[p]aging carriers are . . . faced with the choice of either trying to absorb the cost of . . . compensation . . . or discontinuing" 800 service. Request for Stay, at 9. In other words, if paging companies wish to use payphones, they must pay. This does not amount to harm at all, let alone irreparable harm. PCIA offers no reason at all that 800 subscribers should be exempted from the per-call compensation requirement. The allegation that PCIA members do not always have the option of blocking payphone calls as easily, cheaply, or flexibly as they might wish amounts to no more than a complaint about the state of technology, and the perhaps difficult business decisions that paging companies may face. Again, PCIA gives no hint of why it has a legal entitlement to be free of such worries.

Moreover, even if a stay were granted, PCIA's members would be no better off. Given that the Commission's Order is likely to be substantially upheld on review, IXCs will have the same incentives to collect per-call compensation from their subscribers as if the charges were in place -- just as they have done up to now. IXCs cannot wait until the Order is affirmed to collect payments. In other words, because the stay will not affect IXCs' ultimate liability, IXCs will be

forced to proceed as if the stay were absent -- except that IXCs will pocket the charges, rather than passing them on to PSPs as they are due and owing.

Finally, even if PCIA had pointed to some threatened harm, and even if the stay would help to forestall that harm, PCIA's allegations would fail to satisfy the standard for a stay. PCIA claims that "[i]f paging carriers limit their exposure to these charges by discontinuing subscriber 800 services or trying to pass along these costs, they will inevitably lose a substantial portion of their customer base." Request for Stay, at 9.² This is simply unadorned speculation, unsupported by anything in the record of this proceeding. Such "theoretical" harm will not support a stay.

See Wisconsin Gas, 758 F.2d at 674.

III. A STAY WOULD CAUSE SEVERE HARM TO PAYPHONE SERVICE PROVIDERS AND HENCE TO THE PUBLIC INTEREST

PCIA has no hope of success on the merits of its appeal and has utterly failed to point to any irreparable harm it would suffer in the absence of a stay. These are reason enough to deny PCIA's requested relief. But even brief consideration of the harm that a stay would cause PSPs and the public interest as defined by Congress further confirms that the equities weigh heavily against PCIA's claim.

Pursuant to the Commission's orders, as of April 15, 1997, LECs eliminated hundreds of millions of dollars in subsidies (state and federal) formerly used to support their payphones. The LECs did so with the express understanding that they would be compensated for "each and every" completed call made using their phones. Indeed, the statute commands no less. 47 U.S.C.

²There is some irony to PCIA's insistence that the services its members provide would be undesirable to consumers if priced to reflect their true costs.

§ 276(b)(1)(A). Yet only a tiny fraction of compensation due has been paid. That is because even before the D.C. Circuit's remand order, the IXCs flouted the Commission's orders and refused to pay PSPs the compensation that they were owed. The Commission's own calculations show that marginal payphone providers depend on per-call compensation to make their payphones economically viable. A stay would simply put the Commission's imprimatur on IXCs' intransigent refusal to pay the compensation they owe, severely harming PSPs, while benefitting PCIA's members not at all.

This threat to the health of PSPs is likewise a threat to "the widespread deployment of payphone services." 47 U.S.C. § 276(b)(1). Because Congress explicitly declared its intention to promote such widespread deployment, a stay would constitute a direct threat to the public interest. See Memorandum Opinion and Order, DA 97-2565, ¶ 13 ("In the longer term . . . depriving payphone providers of fair compensation would discourage them from deploying their payphones widely, which would be in derogation of an express congressional purpose."). The Commission should therefore deny PCIA's request for stay; any other course threatens irreparable harm to PSPs, and significant harm to the public interest.

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December 8, 1997

That New Number: 1-800-BLOCKED

Pager Firms Prevent Use of Pay Phones for No-Longer-Toll-Free Calls

By Mike Mills Washington Post Staff Writer

Beware the next time you use a pay phone to page someone: The call may not go through.

One of the nation's largest paging companies, Mtel of Jackson, Miss., has blocked many of its toll-free 800 pager numbers from being used at pay phones. And other paging companies may follow suit.

The reason: Mtel and other paging operators don't want to pay a new 28.4-cent-per-call surcharge imposed to compensate pay phone providers for handling toll-free calls.

"My business is affected," said Tom Gorman, a political consultant who arranges road trips for the Clinton administration. "Now people can't get off an airplane, pick up a phone and page me. And I can't even check my messages from an airport or train station."

Wrote another angry Mtel customer in an e-mail message to other customers: "No more 'I'm running late' pages, 'stuck on the Metro' pages, 'where the

hell are you' pages or 'meet me at Felix's' pages."

It's just one of the ways companies are reacting to the new pay phone rules, which took effect in early October. AT&T Corp., MCI Communications Corp., Sprint Corp. and a coalition that includes trucking companies, taxi companies and consumer groups are asking the Federal Communications Commission to reverse the rules. MCI and others also want a federal judge to halt the charges.

The rules are part of a broader set of changes affecting the pay phone industry—the same rules that recently freed pay phone providers to charge whatever they please for use of public telephones. That change has resulted in increases for local coin-operated phone calls from a quarter to 35 cents.

The pay phone industry, which is dominated by local phone companies such as Bell Atlantic Corp., had complained for years that public pay phone operators were not being compensated when people use the phones to dial toll-free numbers. After a lengthy battle among competing carriers, the FCC imposed the flat 28.4-cent-per-call

charge on the owner of the 800 number.

The new fee took many frequent users of pay phones and toll-free numbers by surprise. The American Trucking Association started getting calls from members outraged about the new charges, which the ATA estimates will cost the industry \$70 million annually.

"It's ludicrous," said Emmett Williamson, president of Great Coastal Express Inc., a 700-driver trucking firm based near Richmond. He esti; mates his monthly phone bill will go up 50 percent, or \$20,000, as the company is forced to pay the charges for each call to its 800 number when its truckers use pay phones.

"Our drivers use pay phones four to five times a day," he said. "They use it for voice mail and to contact us."

MCI offers companies that use 800 numbers a blocking service that prevents specific toll-free numbers from working at public phones.

Mtel is using such technology to block its 800 numbers from working at public phones. Only those paging customers who must be reached through

See PAY PHONES, B13, Col. 4

New Pay Phone Tolls Anger Some Firms

PAY PHONES, From B11

personal identification numbers, via such phone numbers as 1-800-SKY-GRAM, 1-800-SKYPAGE and 1-800-SKYTALK, are affected, according to Mtel spokesman Mark McElroy.

McElroy said only 3 percent of its paging volume involves pay phones and there have been few complaints about the change. Customers with private 800 pager numbers will not have their numbers blocked from pay phones. Instead, they will see new 30-cent pay phone charges on their hills

"This will have consumer impact," said Robert Hoggarth, a senior vice president at the Personal Communications Industry Association. "It will either raise the cost of the service or it will contribute to a lack of available pay phone service."

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MONDAY, DECEMBER 8, 1997

Coming to Pay Phones Soon: Blocking of Some '800' Calls

By SETH SCHIESEL

For decades Americans have assumed, correctly, that they could call "800" telephone numbers free, any time and from any phone. But as a result of the deregulation of the telecommunications industry, consumers may soon find they are unable to call some toll-free numbers from the nation's roughly two million public pay telephones.

In a little-noticed move that could cost American consumers and businesses almost \$1 billion a year, the Federal Communications Commission ruled in October that owners of toll-free numbers must pay a fee of 28.4 cents a call to owners of pay phones when customers dial a toll-free line from a public phone.

What is more, the ruling adds the same charge to each calling-card call and collect call made from a pay phone.

In the wake of that decision, two paging companies with more than three million customers between them have decided to block all calls to their toll-free numbers from public phones rather than pay the fee. And most of the nation's other large paging operators have decided to levy new charges against customers whose pagers use a toll-free number.

Companies that depend on calls from pay phones to their toll-free lines, from airlines to trucking companies to hotel operators, say that the ruling could mean hundreds of millions of dollars in new costs.

Since this summer, the major longdistance operators, including the AT&T Corporation and the MCI Communications Corporation, have passed the fee along to their customers each time they make a callingcard call from a pay phone or accept a collect call made from a pay phone.

The ruling highlights the difficulty of deregulating the nation's \$200 billion telecommunications industry. The intent of the Telecommunications Act of 1996 was to open all quarters of the communications business to new competition. But breaking old monopolies has also entailed shifting the complex structure of costs that have allowed services like "800" and "888" calls to remain free for consumers.

One result of the new policy is about \$940 million in new annual revenue for companies that operate public telephones: the regional Bell telephone companies and about 2,000 independent pay-phone companies.

About 71 percent of that will come from owners of toil-free numbers, with most of the rest coming from users of calling cards, according to the American Public Communica-

Continued on Page A17

Coming to Pay Phones: '800' Calls Won't Be Toll-Free

Continued From Page Al

tions Council, which represents the independent pay-phone operators. Independents control about a quarter of the nation's public telephones.

"This is one example of private pay-phone operators looking for every opportunity to maximize income, frequently at the expense of consumers," said Stephen Brobeck, executive director of the Consumer Federation of America, which has petitioned the commission to end or cut the fee. "All consumers currently understand that the use of '800' services is free This practice threatens to undermine that concept."

But William E. Kennard, the chairman of the F.C.C., said that owners of public phones deserve to be paid for their use. "The fundamental issue here is insuring that pay-phone providers receive fair compensation for each and every call," he said, "No one looks forward to paying for something they are used to getting for free, but fair is fair."

The fee is not being collected from callers at pay phones because the toll-free calling system is set up to collect charges only from the recipient of a call.

An ad hoc coalition including the Consumer Federation and groups ranging from the National Network to End Domestic Violence to the International Taxicab and Livery Association has petitioned the F.C.C. to reverse or modify the rules. MCI has sued the commission in Federal court to change the rules, which will remain in effect unless the court ssues a stay.

Americans make about 91 billion oll-free calls each year, and only about 2.7 billion of those, or roughly 3 percent, are made from pay phones, according to data from the commission and from Bellcore, which developed the toll-free system as the research arm of the regional Bells. But the long-distance companies, which sell toll-free services and which still make most of the profits generated by toll-free calls, are concerned that

What's good for the Bells may not please consumers. the ruling wil erode their business.

"It's a massive impact for the toll-free industry and it tarnishes the image of toll-free service as a whole," said John Cushman, AT&T's director for toll-free services. "We're very ipset about the way the F.C.C. has acted."

Since the court-supervised breakup of AT&T in 1984, the long-distance carriers have paid pay-phone operators about \$6 a month for each pay phone. That fee was meant to compensate the public telephone companies for allowing customers to have access to the long-distance network of their choice by dialing a special code — for example, 10288 for AT&T or 10321 for MCL

But the pay-phone operators received no compensation for allowing customers to call toll-free numbers. While regional Bells could recoup those costs from their residential customers, independent pay-phone operators had to absorb those costs.

The Telecommunications Act directed the F.C.C. to remove the subsidies that supported pay-phone service for the regional Bells. The commission dd that by replacing the standard monthly payments with the 28.4 cent fee for each "coinless" call.

"For many years, '800" providers have been able to use pay phones for no charge while everyone else had to pay 25 cents er 35 cents," said Eric W. Rabe, a spokesman for the Bell Atlantic Corporation, which owns about 400,000 pay phones. "This is just leveling the playing field."

But some companies that use toilfree lines say they are the ones being

leveled by the fee.

Gene Duprè, controller for Duprè Transport Inc., a trucking company based in Lafayette, La., said that his company fielded about 89,000 calls a month to its toll-free number from the company's 600 drivers. "Most of those calls are coming from pay phones in truck stops and rest areas," he said.

Mr. Duprè estimated that the new policy would cost his company about \$140,000 next year, an expense that he said would cut its overall profit by 15 percent to 20 percent.

Monty Stern, chief executive of the

Virtual Voice Corporation, a small voice-mail company based in Woodland Hills, Calif., said that his company had shut down its toll-free lines because he could not determine which clients were calling from pay phones. The company has opened new toll-free numbers, he said, after investing \$25,000 in software that tracks calls from pay phones.

John Hotard, a spokesman for American Airlines, a unit of the AMR Corporation, said that while only about 4 percent of the 125 million calls the company received over its toll-free lines each year came from

pay phones, the company had joined the group fighting the policy because the change would cost American more than \$1 million a year.

"A million dollars is still a lot of money to us because we are a very low-margin industry," he said.

Perhaps the most drastic response to the policy has come from paging companies. Access to many pagers is through toll-free numbers, and many people call pagers from pay phones.

The Mobile Telecommunication Technologies Corporation, which serves about a million clients from its headquarters in Jackson, Miss.,

has shut off access from pay phones to pagers using its 1-800-SKYPAGE, SKYWORD or SKYGRAM numbers.

"This seemed to be the simplest, least complicated way of dealing with the ruling," said Mark McElroy, a spokesman for the company.

John D. Beletic, chief executive of Pagemart Wireless Inc., based in Dallas, which has about 2.4 million paging customers, said his company had also decided to shut off payphone access to its toll-free pagers, though the company had not settled on a timetable for the change.

Other large paging companies, including Paging Network Inc., which has about 10.4 million customers, said they would impose new monthly charges ranging from \$2.49 to \$5 on customers who maintain toll-free

pagers or would bill those customers, based on how many calls they received from pay phones.

Vince Sandusky, president of the independent pay-phone companies' association, had little sympathy for the toll-free clients.

"These complaints are like homesteaders squatting in a landlord's building when he's not there and then complaining when he shows up and they have to pay," he said. "Without having those costs covered adequately, there is no incentive for pay phone operators to expand and put in more pay phones."

Mr. Sandusky added that his group had asked the F.C.C. to consider rais-

CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of December, 1997, I caused copies of the foregoing Opposition of the RBOC/GTE/SNET Coalition to PCIA's Request for Stay to be served upon the parties on the attached service list by first-class mail.

Marilyn R. Leeland

FEDERAL COMMUNICATIONS COMMISSION

Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996 CC Docket No. 96-128, Second Report and Order

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December 8, 1997

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of December, 1997, I caused copies of the foregoing Motion for Leave to File Out of Time of the RBOC/GTE/SNET Coalition to be served upon the parties on the attached service list by hand delivery or overnight mail, and by facsimile where noted.

Michelle Dawson